

**BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA**

DOCKET NO. 2013-275-WS

In the Matter of:

**Application of Carolina Water Service,)
Inc. for Adjustment of Rates and)
Charges and Modifications to Certain Terms)
and Conditions for the Provision of Water)
and Sewer Service)
_____)**

PREFILED SETTLEMENT TESTIMONY

OF

RICHARD J. DURHAM

1 **Q. Please state your name, present position and business address.**

2 A. My name is Richard J. Durham. I am the Regional Vice President of Operations for
3 Utilities, Inc. (“UI”) and its subsidiaries, including Carolina Water Services, Inc. (“CWS”).
4 My business address is 200 Weathersfield Avenue, Altamonte Springs, Florida 32714.

5 **Q. What are your duties in your current position?**

6 A. In my current position, I am responsible for directing the safe, efficient and
7 economical operation of the Southeast, South and West Regions assets. My duties and
8 responsibilities include the following:

- 9 • Lead operations team to be in compliance with all applicable local, state and
10 federal regulations;
- 11 • Economic performance of operating subsidiaries within the West, South and
12 Southeast Regions;
- 13 • Maintain assets in good operating condition;
- 14 • Developing capital plan to meet customer growth and adherence to that plan;
- 15 • Margin review analysis to ensure efficient operations;
- 16 • Stewardship of legal issues and cases;
- 17 • Foster and ensure safe work environment;
- 18 • New business development;
- 19 • Manage relationship with the community;
- 20 • Manage and provide leadership for staff;
- 21 • Provide information to national headquarters and manage management’s
22 expectations; and

1 **Q. What is the purpose of your testimony in this Docket?**

2 A. The purpose of my testimony is to support the settlement agreement among the Office of
3 Regulatory Staff (“ORS”), the Forty Love Point Homeowners Association (“Forty Love”) and
4 CWS, dated January 7, 2014, which was filed with the Commission on the same date.

5 **Q. Please describe the settlement agreement between the ORS and CWS.**

6 A. The parties have agreed to a settlement which generates \$1,037,779 in additional
7 revenue to CWS. In particular, CWS agrees to accept a 9.50% return on equity rate, a 7.97%
8 return on rate base, a 12.69% operating margin as can be found in paragraph 2 of the agreement
9 and I understand will also be reflected in revised Exhibit DFS 1 to ORS witness Daniel F.
10 Sullivan’s testimony.

11 **Q. Do you believe the settlement is fair and reasonable to all of the parties and**
12 **to CWS’ customers?**

13 A. Yes. The ORS has conducted a thorough audit of CWS’s Application in this Docket
14 and its adjustments reduced CWS’ request for additional revenue by \$1,055,804 or 51%. CWS
15 believes that the proposed rates and agreed upon revenue will represent a fair compromise of
16 the parties’ positions.

17 **Q. How does the settlement affect CWS’ overall financial performance and health?**

18 A. While the settlement is a compromise of firmly held positions, it will reduce regulatory
19 costs going forward and give CWS a better opportunity to earn its authorized return and
20 generate additional investment in its water and wastewater systems in South Carolina. I
21 would also ask the Commission to bear in mind that due to continued capital investment and

1 annual operating cost increases, CWS will undoubtedly not earn the authorized ROE of 9.50%
2 but would expect to earn less as it continues to operate and maintain its systems.

3 **Q. What are some of the benefits of settling the matter?**

4 A. Settlement has the benefit of providing the utility and its customers with certainty.

5 Moreover, rate case expenses in a fully litigated docket can prove to be a substantial cost which
6 the utility must pass on to its customers. In this case, the settlement also resolves all issues
7 in both this docket and in Docket No. 2011-47-W/S, currently on remand before the Commission.

8 Settlement mitigates the rate case expenses associated with both dockets and result in a savings
9 to both the utility and its customers.

10 **Q. What rates result from the parties' settlement?**

11 A. The parties in this settlement have agreed to a flat rate of \$45.04 per month for
12 residential sewer service and \$45.04 per month for each single-family equivalent ("SFE") for
13 commercial customers. The parties further agreed upon an increase in rates for water service
14 and the Company will charge its residential water customers a base facility charge of \$12.49
15 per month and commodity charge of \$4.72 per 1,000 gallons. The schedule of rates agreed
16 upon by the parties can be found at Settlement Agreement Exhibit 1 and is summarized in the
17 chart below:

18 *[Continued on next page]*

<u>Service</u>	<u>Current Rate</u>		<u>Application Rate</u>		<u>Settlement Rate</u>	
<u>Water</u>	<u>Usage</u>	<u>Base</u>	<u>Usage</u>	<u>Base</u>	<u>Usage</u>	<u>Base</u>
1" Commercial Water Service	3.89	31.81	4.88	39.40	4.72	32.68
5/8" Residential Water Service	3.89	12.16	4.88	15.06	4.72	12.49
1" Water Distribution and Purchased Water Charge	2.23	31.81	2.79	39.40	2.71	32.68
5/8" Water Distribution and Purchased Water Charge	2.23	12.16	2.79	15.06	2.71	12.49
<u>Wastewater</u>	<u>Usage</u>	<u>Base</u>	<u>Usage</u>	<u>Base</u>	<u>Usage</u>	<u>Base</u>
Residential Wastewater		40.56		51.03		45.04
Residential Wastewater Collection Only		26.73		33.63		29.69
<i>Usage rates calculated per 1,000 gallons</i>						

Q. Please respond to the customers who testified against CWS' requested rate increase.

A. Customers who spoke at the public hearings were opposed to increased water or sewer rates. We understand that applications for rate increases are never popular. We do not like them either. They are difficult, contentious, and time consuming for everyone involved. Unfortunately, rate increases are also necessary if CWS is to continue to provide adequate and reliable service to its customers. However, through this settlement, the Company's requested increase has been substantially reduced, thereby mitigating the effects of the application on our customers.

1 **Q. Can you speak to the comparisons that customers made between CWS' rates and**
2 **those charged by other service providers?**

3 A. Many of the customers who testified at the public hearings in York County
4 compared CWS' rates with those charged by municipalities or other public entities, such as
5 York County. While frequently made, such generalized comparisons between investor owned
6 public utilities and governmental entities are simply not meaningful for ratemaking purposes.
7 Public entities do not pay taxes. They may also have a multitude of income sources, such as
8 tax revenues, to operate and subsidize their utility rates. Significantly, municipalities are
9 also free to subsidize one customer class, such as in-town customers, at the expense of another,
10 such as out-of town customers, and there is no independent regulatory oversight over their rate
11 making process. There is no way to make a reasoned comparison of their rates to those of an
12 investor owned utility such as CWS, whose customers are actually billed on the basis of the
13 investments made and the expenses incurred by the provider.

14 **Q. Do you have a recommendation to the Commission in this Docket?**

15 A. Yes. I would respectfully submit that the Settlement Agreement between the ORS
16 and CWS in this Docket is fair and reasonable and in the public interest and would urge the
17 Commission to approve the Settlement Agreement.

18 **Q. Does this conclude your testimony?**

19 A. Yes. I thank the Commission for hearing us out this morning.